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Directorate of
Intelligence

The Soviet Banking Industry: Blueprint for Change

A Reference Aid

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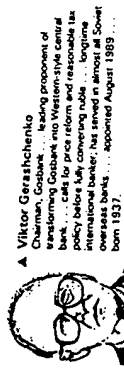
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The Soviet Banking Industry: Blueprint for Change

KEY OFFICIALS



▲ **Viktor Grashchenko**
Chairman, Gosbank... leading proponent of Western-style central bank... calls for more liberal and responsible international banking... development of commercial banks began... appointed August 1989



▲ **Yuriy Moskvitskiy**
Chairman, Vnesheconombank (VEB)... oversees currency auctions to pave way for ruble convertibility... has increased network of VEB representative offices... has held positions in government and VEB... predecessor organization... appointed 1987... born 1942

THE EXISTING SYSTEM

The 1987 Banking Reforms
Gosbank relinquished control of lending and day-to-day operations to five specialized banks... development of commercial banks began.



▲ **State Bank (Gosbank)**
Regulates money circulation; helps establish credit, monetary policy.

▲ **Commercial Banks**
Formed by cooperatives, industrial enterprises, venture capitalists... relatively free to set own interest rates.

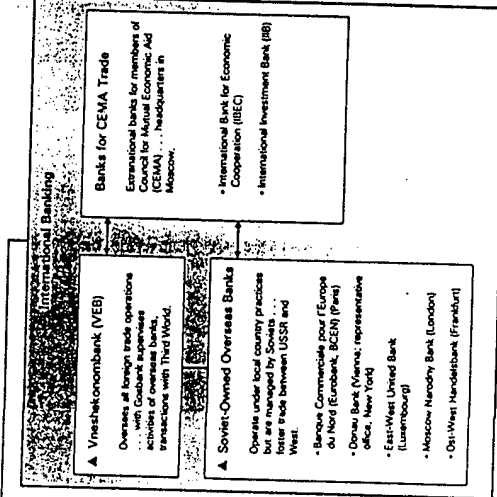
▲ **Specialized Domestic Banks**
Completed USSR financial system... bank loans extended primarily to state enterprises... interest rates to loan unprofitable enterprises...
 ▲ **Agroprombank**
Principal financial institution in rural areas... service state and industrial enterprises...
 ▲ **Promstroybank**
Supplies capital investment loans to construction, transport, communications, and heavy industries... lend only to state enterprises.
 ▲ **Sberbank**
Savings bank... for individual savings and credit... under tighter control by Gosbank in response to unrest in Baltics.
 ▲ **Zheltobank**
Housing construction... major source of loans to private cooperatives, individuals, disaster relief organizations.

Legend

- ▲ State Bank
- ▲ International Banks
- ▲ Domestic Banks
- Subordination
- Supervision
- ↔ Coordination

▲ **Aleksandr Obazintsev**
Chairman, Agroprombank... provides extensively for rural, agricultural... and state farms... headed Latvian office of Gosbank... born 1931

▲ **Mikhail Zolov**
Chairman, Promstroybank... has called for more liberal lending policies... was criticized in press for loose lending policies... Chairman, Zheltobank... organization (Sberbank) 1973-87... born 1915



THE PROPOSED CHANGES

Proposed reforms have been drafted since December 1989.

▲ Autonomy for Gosbank

- Transition into Western-style central bank with control over credit/money policy.
- Begin regulating financial operations of economy through market methods, such as obligatory reserves, variable interest rate

▲ Development of Commercial Banking

- Grant commercial banks—which now hold only 2 percent of banking assets—freedom to begin direct foreign operations.
- Open capital and security markets.
- Increase interest rates.
- Place specialized banks on commercial footing.
- Maintain some restrictions on interest rate policies.

Other reforms have affected the banking industry.

▲ Ruble Convertibility

- Expect price reform to precede ruble convertibility.
- Hold limited auctions of rubles for hard currency as step toward convertibility.
- Set more realistic exchange rate policy, including greater devaluation of ruble, for short term.

▲ Republic Autonomy

- Basic republics developing own financial and credit network as part of regional autonomy program enacted in January 1990
- Estonia and Lithuania forming own state banks; facing substantial pressure from Gosbank to reverse decision

